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Plastics shaping an uncommon design future

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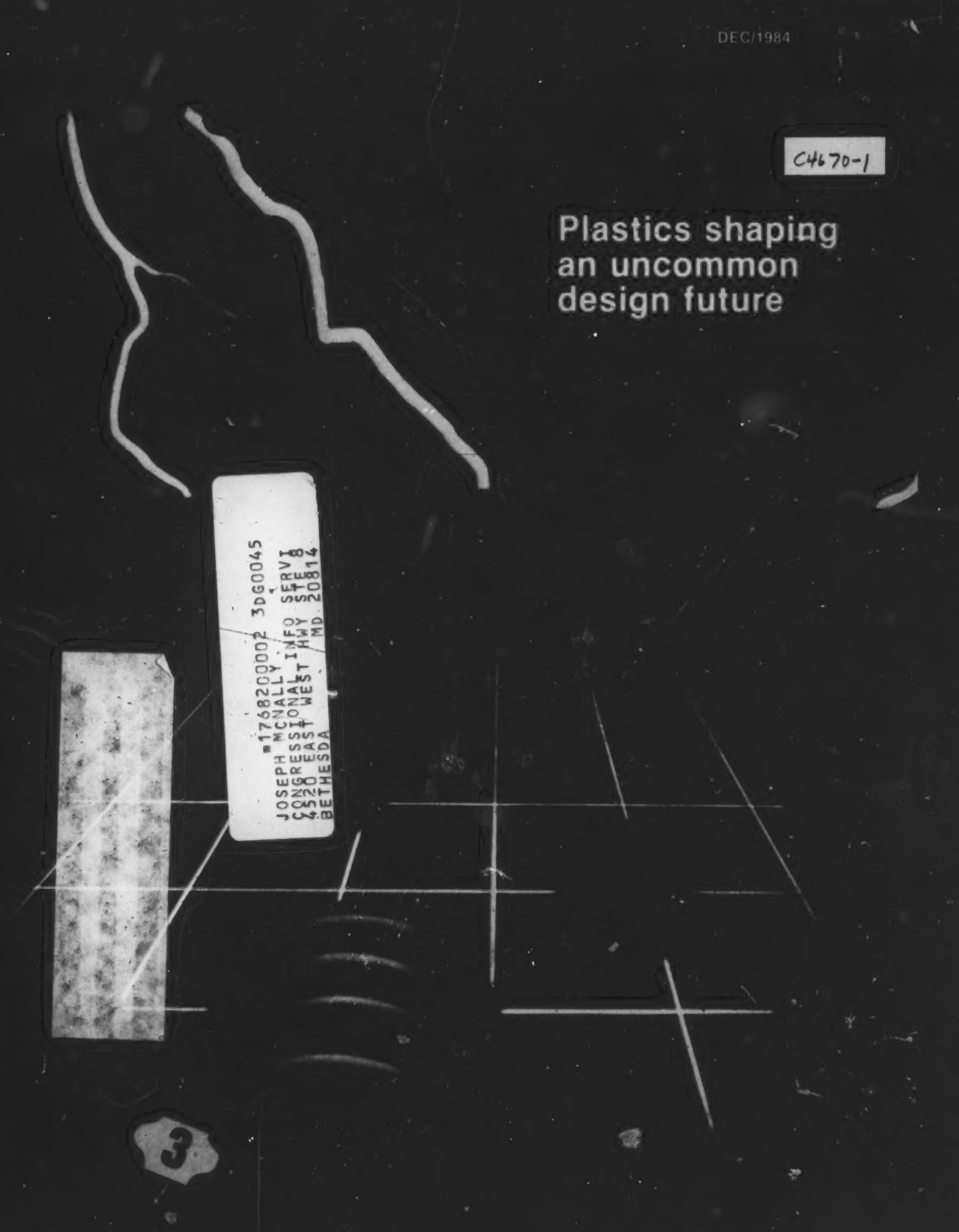

PurchasingWorld

Helping you manage the business of buying

Vol. 28 No. 12-December 1984

Features

32 Paying for value or cost plus markups?
This month's negotiations column by well-known consultant Louis De Rose discusses the many risks PMs face in buying capital equipment because of contingency pricing. The cost plus rationale in pricing invites poor management by reversing the incentive of the seller and jeopardizing value to the buyer—two very strong reasons why equipment prices should be negotiated.

38* No sweat on the industrial price front
The heat's off, say the nation's PMs in this new and exclusive *PurchasingWorld* survey. Reasons for this new optimism include still ample capacity, intensifying foreign competition aided by a strong U.S. dollar, relatively restrained cost pressures from labor and energy, and the determination of buyers to hold the line.

50* Quarterly transportation report
Good news as rate hikes projected just three months ago for 1985 are expected to rise only 6% compared with an earlier (spring 1984) projection of 8%. That according to Wharton Econometrics which also has pared projections for 1986 from 4.9% to 4%. Big factors: reduced pressure on energy costs and somewhat lower-than-expected labor costs.

58 Buyers still calling shots in plastic resin industry
Today's huge price discounts tell a lot about an industry that has always been as competitive as the thermoplastic resins industry. List prices are little more than a starting point for serious negotiation as a spot check of volume purchases in this special *PW* report points out. What the future holds will in large part be determined by the impact of the bargain basement prices being paid for petroleum feedstock and the excess capacity that continues to plague the industry.

59 Plastics are shaping an uncommon future
PMs are being challenged to stay on top of new production applications for plastics. They must keep their companies competitive in price, quality, and service by taking advantage of the unique properties and possibilities of engineering resins. Here's a survey of some of the most recent design inroads that continue to sweep across the industry for engineering plastics.

Cover photo: courtesy of Owens-Corning Fiberglas Corp.

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PW PREDICTS

Robert S. Reichard, executive editor

Pricing restraint seen for 1985

It's beginning to look more and more like another good year on the industrial price front.

Buyers responding to the latest NAPM Business Survey Committee report, for example, note the fewest price increases and the most decreases since the current business upturn got under way in early 1983. More to the point: The 15% who were socked with hikes over the latest reported month were pretty much offset by the 13% who experienced declines.

Equally important, the nation's buying executives see continuing restraint for the upcoming year. This time the results are from a new nationwide *PurchasingWorld* survey. They suggest that the average overall increase in procurement costs will be about 4% next year—just one point above the 3% figure estimated for 1984 by these same buyers.

There is plenty of new evidence to back up this rosy forecast. Wage hikes are not accelerating as many thought they would. Hourly earnings in the non-farm business sector have gone up only 4.4%. And even this has been partially offset by a productivity increase of nearly 2.5% over the same period.

Another factor in the improving inflation outlook is the weakness in crude oil prices. While new OPEC curtailments have been announced, it is questionable whether they can be enforced. And even if they are, the move will only manage to keep prices where they are rather than send them climbing.

One should not underestimate the fact that energy, in addition to affecting almost every product sold, also has a psychological impact on the world market. It's no coincidence that the high and low inflation years over the past decade have almost perfectly correlated with sharp swings in energy costs.

DRI has actually quantified the relationship. The Lexington, MA-based econometric consulting firm figures that for every $2/barrel decline in oil that would continue into 1985, producer prices would drop by more than 1.2%.

The Federal Reserve Board also sees a connection. Preston Martin, vice chairman, believes the current oil softness means lower inflationary expectations—instead of the previously forecast 4-5% inflation rate for 1985, the advance could drop to as low as 3.5%.

Still another favorable sign has been the nearly 1% decline in interest rates over the past month or two. This small drop cannot be shrugged off; for money is a cost of doing business and when rates fall, inventory carrying charges and other financial expenses automatically decline.

Last but not least, there are today's expectations for slower overall business growth—perhaps 3% next year vs 1984's big 6-7% advance. If nothing else, this should ease demand-pull pressure on most prices.

Given all of the above, it is not suprising that most analysts are now in the process of revising their 1985 inflation estimates downward.

Price stability seen for oil industry

It is beginning to look like a good year for petroleum product users in 1985.

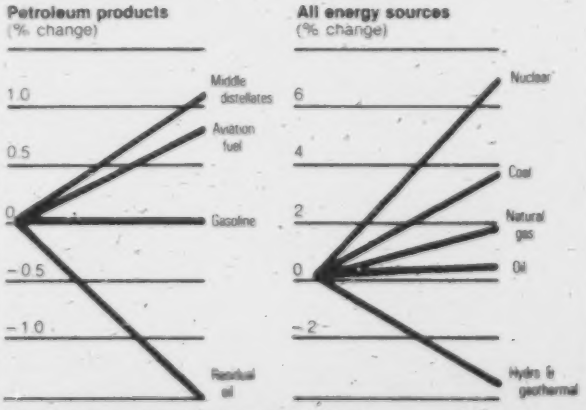
OPEC says it plans to reduce its daily output by 1.5 million barrels (to 16 million barrels). But given the expected increases in non-OPEC oil production and the endemic cheating on quotas by cartel members, the world price should remain at the current $29/barrel benchmark level.

This suggests that prices of gasoline and other oil products will remain at about where they are now through 1985—except for some seasonal boosts for heating oil this winter and gasoline next spring and summer.

Adding to the projection for relatively stable prices is the sluggish demand pattern seen for the upcoming year. As shown in the chart below, this pattern suggests that overall U.S consumption of oil will increase by only about ½% in 1985 (to nearly 15.9 million barrels per day)—not that much above the 15.2 million barrel low point of 1983.

Total U.S. energy usage probably won't be too bullish either. An increase of only 1.6% is being projected for 1985—as 1) GNP gains slow down and 2) energy consumption per unit of GNP drops for the 15th straight year. On the latter score, next year the U.S. economy will use 28% less energy per unit of GNP than it did back in 1970 before the big oil crisis.

1985 Domestic energy demand



Source: Independent Petroleum Association of America

...continued

Paper

CURRENT SITUATION: Price increases seem to be slowing a bit. The trend is still up, but future increases may be harder to come by—it took almost three months for the recent $30/ton increase in linerboard to take hold. A $29/ton advance in newsprint has been postponed until April 1, 1985. Demand, however, is brisk. **Overall paper and paperboard output this year may be up 6% from 1983.**

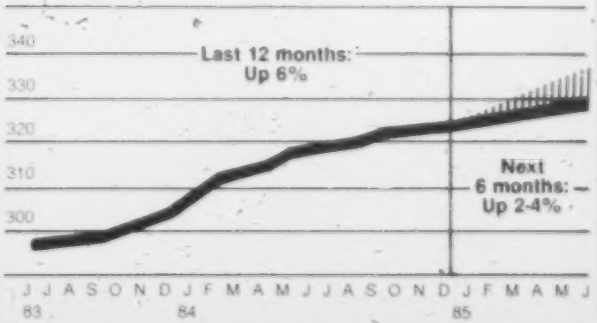
DEMAND: Next year's advance will be considerably under that of 1984—reflecting slowing GNP gains. Right now, **a 4% increase in overall domestic paper and paperboard output is seen.** Similar gains are projected for consumption where a positive net inflow of imports should boost total use to over 76 million tons. Corrugated shipments will rise by about 3.5% in 1985 while printing and writing papers could increase by around 4.1%. This could be a good sign as **printers' inventories are at their highest levels since 1980.**

SUPPLY: There should be enough to go around as 1.1 million tons of new capacity are added this year. And more should be on the way for 1985—reflecting capital outlays of nearly $7 billion this year. Imports should also help supplement supplies. **But no major drop in operating rates is seen. Average rates for 1984 came in at these high levels: uncoated groundwood (100%), coated papers (102%), uncoated free sheet (97%), unbleached kraft paper (99%), and unbleached linerboard (97%).**

PRICE OUTLOOK: Some increases would seem to be unavoidable. But the really big advances of 1984 seem to be over. For example, it's difficult to imagine a repeat of the past 12 months when these double-digit increases were posted: unbleached kraft linerboard (20%—to $350/ton), corrugated cartons (11%), 34-36 lb coated magazine paper (13%—to $850/ton), and watermarked bond (13%—to $985/ton). Best bet: **a 6% advance for 1985 as a whole.**

Paper and products

(Index 1967 = 100)



Steel

Look for domestic producers to ship only about 17 million tons this quarter—keeping the yearly total to only 74 million—well under earlier projections. One result: falling prices with discounts ranging as high as 25% in such key products as cold rolled sheet, carbon steel plates, galvanized sheet, wire rod, stainless bars, and oil country tubular goods. But some modest recovery of about 5% or so is anticipated for early 1985 if voluntary restraints work as expected. Demand could improve next year—a drop of as much as 5 million tons of imports could push domestic shipments up into the 77-78 million ton range.

Aluminum

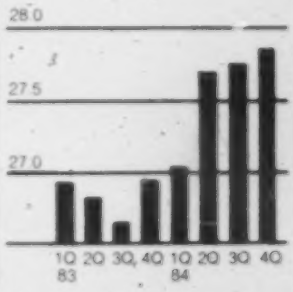
Production cutbacks are having a firming effect with ingot crossing back over the 50¢/lb barrier. Orders are also up, but it would be unrealistic to expect any return to the 75¢/lb ingot level of earlier this year. Imports (mainly from South America) are up this year. Finally, demand will advance only about 5% worldwide this year. Upshot: Any further price boosts will be small—maybe into the 60¢ range by late next spring.

Fasteners

Some useful figures to ponder when planning your overall buying strategies for 1985 and beyond—based on a new report by Business Trends Analysts: 1) Imports will continue to represent a hefty slice of the market—15% currently with big incoming shipments from Japan, Taiwan, and Canada; 2) Fastener sales gains will slow down from about 10% this year to only 2.7% annually over the next decade; 3) Aircraft fasteners will remain a high growth area, while externally threaded non-aircraft types will still account for close to 40% of total U.S. shipments; 4) Sales on non-thread, non-aircraft fasteners make up a smaller 16% of the market.

Fastener price

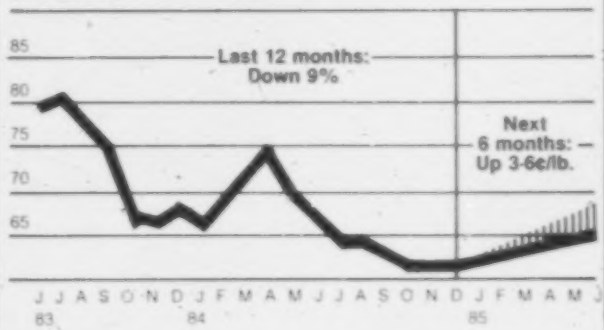
(Index: 1967 = 100)



Computers

Figure on still more price erosion in 1985—caused by a combination of competitive infighting and new technological breakthroughs. Particularly vulnerable are small personal computers—especially home types which in some cases are now down to near $100. Micro computers are also edging lower. Best bet for the overall computer industry: about a 15-20% price decline for a given amount of com-

Producer copper prices
(Cents per lb.)



Copper

CURRENT SITUATION: The red metal may finally be ready to climb out of its deep hole. Indeed, there has already been some recovery from the low 60¢/lb producer price of early fall. But tags are still under the nearly 75¢/lb level of this past April. And achieving black ink here in the U.S. is even further away—estimates are that our mines and smelters now need about 80¢/lb to break even. Behind the recent modest recovery: **Domestic production cuts, some solid demand gains, and slowly declining stocks.**

DEMAND: Domestic consumption could be up as much as 8% this year—bolstered by demand from the auto and construction sectors. Best bet for 1985: **about a 2-4% overall domestic gain, and a similar increase for the global market. But the longer-term prognosis is less bullish—with annual gains put at only 1-2%**—as the metal is hurt by substitution of fiber optics and reduced use per final product.

SUPPLY: There's still more than enough to go around. Global above-ground stocks still add up to nearly a 6-month supply, and Third World countries can easily increase supply levels. The slightly higher prices expected for 1985 could reactivate currently idled U.S. capacity a bit. **A key fact: World production is now at less than 80% of potential.** Finally, there is plenty of scrap around—now surfacing from the copper boom of the 1960's.

PRICE OUTLOOK: While further rebound is likely, a near-term bounceback to $1/lb quotes is unlikely. Higher prices will tend to spur more production, especially in some third world world countries where copper earnings are crucial to foreign exchange. Spurring this trend along is that even at 60¢/lb, many overseas producers can turn a profit. Best bet: **Modest increases with tags averaging around 70¢/lb for the first half of 1985.**

Sulfuric acid

Prices are beginning to edge up in the Midwest—with all grades increasing about $10/ton. Behind the boost: a new plant shutdown lowering supply, and rising sulfur prices. On the latter score, the basic raw material for the acid has moved up twice over the past year. There is also talk of further advances as world markets remain tight (the global shortfall is currently estimated at over 3 million tons).

Robotics

Demand gains aren't likely to proceed at quite the breakneck pace envisioned as recently as a year ago—but they're still pretty impressive. International Data Corp. pegs the market at $700 million in 1989—implying about a 25-30% annual rate of growth over the 1983-1989 period. Projected year-to-year gains: 20% this year, 25% in 1985 and 1986, and 30% in 1987, 1988, and 1989. Biggest gains should come in assembly, painting, and arc welding—all of which are highly dependent on sensor developments.

Benzene

Don't count on current low prices ($1.21/gallon for contracts and $1.61/gallon on the spot market) to last too much longer. Reason: Production cutbacks should bring inventories back down to more manageable levels. Also price pressuring imports have leveled off—although nobody knows for how long. Best bet: a 5¢/gallon increase by yearend or early 1985.

Benzene (spot prices)
($/gallon)

Lead

Continuing domestic work stoppages are giving the metal a lift—with perhaps another few cents being added on to the going price as the battery buying season shifts into high gear and supplies begin to tighten up. In fact, the latter is already beginning to happen. LME and U.S. producer stocks are already off. But no real runaway price is anticipated—for strikes should be settled by yearend or early 1985. Demand isn't all that robust, although next year could see a modest 2-3% advance. Further advances depend on whether the metal can break into new usage areas such as PVC water pipe and roofing and asphalt

...continued

Big sales growth seen for low-end word processors

The low-end word processor boom still has a long way to grow. Prices are expected to decline from the current average of over $2,800 per unit to just over $1,800 per unit by 1988, say analysts at Frost & Sullivan.

They also predict these average annual changes over the 1983-1988 period: dollar sales (+23%), unit volume sales (+34%), and average unit price (−8%).

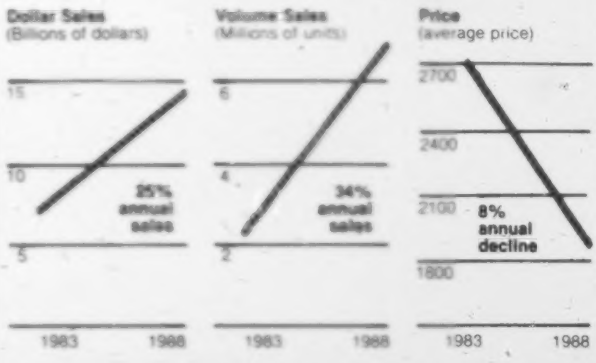
The findings, detailed in the accompanying chart, cover several types of equipment including stand-alone machines, electronic typewriters, and personal computers—all with the capability to operate independently as a word processor.

A spokesman for the big international research firm adds that growth will be uneven among the various types. Electronic typewriters, for example, are expected to lead the pack. Demand for these machines will increase as small businesses that do not require more complex equipment and larger companies who need simple workstations with communications capabilities place more orders. Expected growth in this area is projected at 50% annually.

The personal computer sector will also continue to experience rapid growth—unit sales should increase by 30% annually. On the other hand, stand-alone dedicated word processors sales are expected to decline.

Viewed from an end use market perspective, unit growth will range from 29% annually for major accounts to 49% for home use buyers. Government, educational, institutional, and small business unit growth will fall somewhere between these two extremes. In terms of actual shipments, major accounts will be responsible for over one-third of the 8.2 million units sold over the 5-year period, while home-use units will total less than 15%.

Low-end word processors



applications. But big tonnage is still years away at best.

Nickel

Still no sign of any near-term price recovery. Some of the easiness can be traced to demand which has moved up only slightly over the past year. More significant is the problem of oversupply. Currently the western world has 1.4 billion lb of effective capacity. Russia and Cuba have another 100 million lb and they are expected to increase exports to the Free World next year as a new refinery comes on stream. Upshot: There is no chance of the metal rebounding to the $3.20/lb level of several years ago.

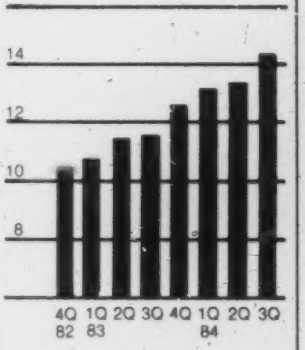
Rubber products

Industrial items should show only very modest growth next year. Tonnage gains, as estimated by the Rubber Manufacturers Association, are put at about 3% for each of the three major product lines—hose, flat belting, and V belts. Long-term (1984-1989) growth patterns are even less exciting—somewhere in the 2-2.5% range. All this would seem to suggest quite modest price advances of about 4-5% for both next year and through 1989.

Real estate

Office space seekers can probably look forward to more good bargains—as the overall vacancy rates in downtown areas rise to a new all-time peak of 14.2%—nearly triple the levels prevailing as recently as early 1981. Suburban vacancy rates are even higher (17.9%) on average. But getting a good buy on an industrial plant could be a bit harder. The 5.1% vacancy reading of late 1983 has slipped to 4.6%.

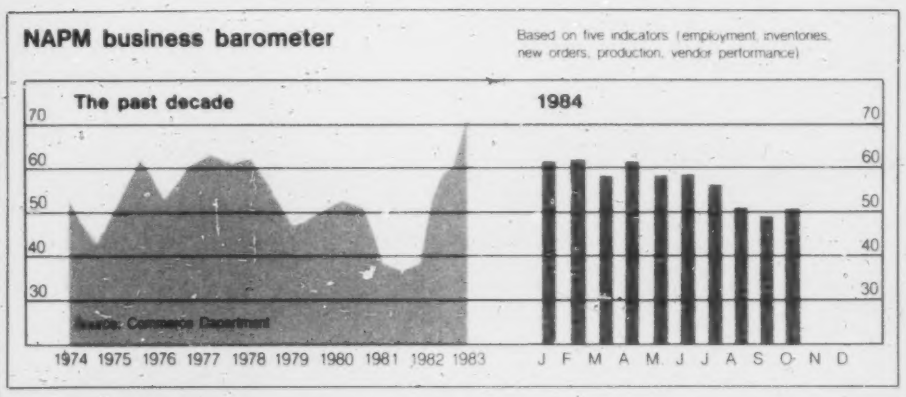
Office vacancy rates



Zinc

Markets remain shakey with discounts as much as 2¢/lb reported off the official 45¢/lb domestic producer list. LME quotes are also soft—and the European producer price has dropped down to near $900/metric ton. Two other signs of easiness: 1) rising inventories and 2) new mine openings. The big problem is that there is too much supply chasing a limited market. This year, for example, the Free World will produce 5 million metric tons—some 200,000 above demand. Next year the surplus could hit 400,000 tons.

BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1984
70
60
50
40
30
Source: Commerce Department
1974 1975 1976 1977 1978 1979 1980 1981 1982 1983
J F M A M J J A S O N D

KEY ECONOMIC TRENDS

Slower growth, falling interest rates seen for 1985

Economic indicators are flashing mixed signals again. While there is enough momentum left to keep the GNP in the plus column through early 1985, the gains now look to be a lot less robust than they have been.

Recent readings of the NAPM Business Barometer point up the change. After running in the positive 55-60 range for more than a year, this key indicator is now down near the neutral 50 level.

A look at some of the key categories that make up the NAPM and other barometers also suggests an underlying change in the business climate.

Take capital equipment spending. This year's big 16% gain is expected to give way to only about a 10% boost in 1985. More important, since machinery prices are beginning to go up (vs this year's relative stability), the deceleration will be even more pronounced in real terms —with about a 15% increase this year slowing down to 5% next year.

Consumer spending, too, seems to be flattening out. True, the leveling off is at very high levels. But growth is dependent on change not on the level of spending.

Autos are a good case in point. Most forecasts call for about a 10.5 million sales total in 1985. That is good by recent standards, but it is no bigger than this year's estimated figures (see chart). Upshot: the big auto industry will be a neutral rather than a growth factor as far as next year's GNP gains are concerned.

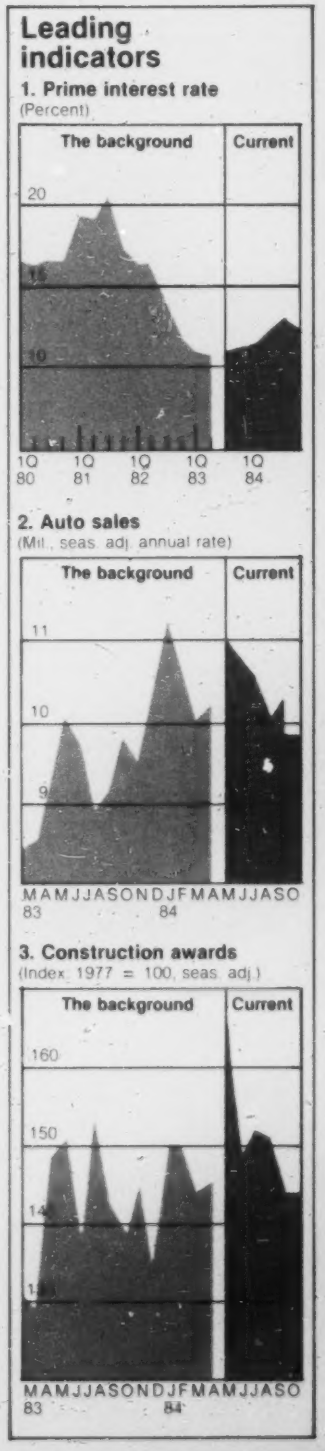
A similar picture seems to be emerging in the construction industry. The total number of contract awards, a leading indicator of future building activity, has slipped a bit from recent highs (see chart).

Finally, there is a big drag caused by the large trade deficit which is running at double last year's level—a possible $120 billion. That represents the loss of domestic production, with a potential negative impact on employment, output, and even future capital spending.

Given all of the above, it is difficult to make a case for anything resembling this year's estimated 7% real growth pace. Most 1985 forecasts are centered in the 2-3% range.

On the other hand, it should be emphasized that there is little to suggest any slippage back into the negative column. Factors that would seem to guarantee against such a development: (1) low inflation rates, (2) relatively low inventories vis-a-vis current sales levels, (3) still strong consumer optimism, (4) big government spending and a huge $200 billion federal deficit, and (5) recent declines in interest rates.

The latter two factors



cannot be underestimated. The additional money being funneled into the economy by Uncle Sam more than makes up for any reticence on the part of consumers and businessmen to increase their spending.

In short, fiscal policy is still strongly expansive.

And monetary policy—as measured by interest rates—may also be tilting away from restraint. Note from the chart, for example, that the prime rate is now edging under 12%—and could well drop into the 10-11% range by early 1985 if inflation stays low.

To sum up: the basic business outlook for the next few quarters is not all that bad. True, there is little that indicates a repeat of early 1984, but that may be all to the good because such fast growth is basically unsustainable.

Import price bargains going strong

If there is still any doubt about the pervasiveness of import bargains—take a look at the accompanying chart. Import tags have been outperforming domestic prices for eight straight quarters.

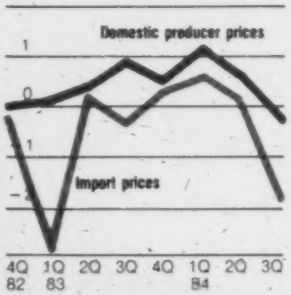
Credit much of the overseas advantage to a strong U.S. dollar. It has appreciated 9.1% against the trade-weighted average of all other currencies over the past year. And while all of this has not been passed on to U.S. buyers through lower prices, it has permitted foreign vendors to shave quotes when needed to nail down a sale.

The price gap between aggregate domestic and import prices has widened about 2.5% over the past year. Here's a detailed breakdown of happenings on the price front in the last three months:

- **Crude materials:** The overall drop from the previous quarter came to 1.9%—with big declines noted in oil, lumber, crude rubber, and metallic ores.
- **Chemicals:** A 1.9% decline reflects price fall-offs in fertilizers and pharmaceutical products.
- **Intermediate manufactures:** A 1.7% decline stems from drops in nonferrous metals, lumber and rubber products, and metal manufactures. Paper, steel, and textiles edged higher.
- **Machinery and transport equipment:** All subgroups registered declines—with the largest falls from the previous three months noted in electrical machinery (4.6%), office machines (2.7%), and general industrial equipment (2.1%). Telecommunication equipment also fell—sparked by new declines in video cassette recorders.

Import prices stay low

The overall trend
(Percent change)



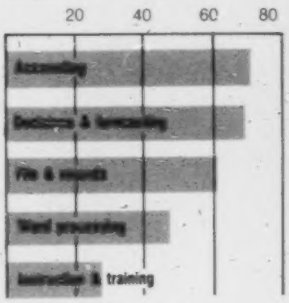
Source: Bureau of Labor Statistics

Percent change over past year

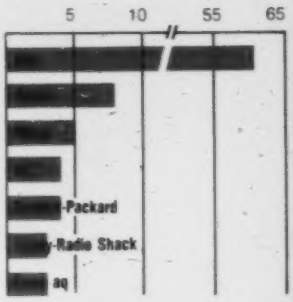
Crude oil	−1.3
Tires	−0.8
Paper & board	6.0
Iron & steel	8.4
Fasteners	5.2
Special machinery	−2.1
Metalworking machinery	−4.1
Material handling equipment	−4.3
Bearings	−4.4
Office machinery	−4.3
Electric machinery	−9.8
Electronic components	−18.2

Small business computers

How they're being used
(Percent of respondents)



Type of equipment
(Percent of respondents)



Source: Management World

Computers becoming an office "must"

Small business computers (defined to include personal, desktop, and microcomputer models) are fast becoming a "must" in the typical U.S. business office. More than nine out of ten queried firms use, or are planning to buy some type of computer.

That figure, culled from the new *Management World* survey of 500 key business outfits, suggests that computers have become indispensible—standard pieces of equipment to go along with typewriters and the ubiquitous office copier.

Accounting remains the number one use of computers with 71% of respondents saying that they use them for this purpose. Decision-making and forecasting is a close runner-up with 70% of respondents citing this pur-

Not surprisingly, IBM remains far and away the choice of the vast majority of buyers. More than three out of every five put an IBM system in the top spot. Apple still remains in second place—although its current 8% market share represents a sharp drop from last year's 23% reading.

Other key findings of the just-released survey:

- Financing: Some 88% of the firms with computers say they purchased their units outright.
- Communications: Almost half the respondents use small computers to communicate with other computers—up from 42% last year.
- Control: Most firms are now opting for centralization. More than three out of five survey respondents have a formalized policy covering acquisition, installation, and use.

CURRENT PRICES

Industrial prices holding, some hikes possible

Industrial prices edged up fractionally this past month—but no more than they have in other recent months. Year-to-year comparisons remain as favorable as ever—with averages running only about 1.5% above the late 1983 readings.

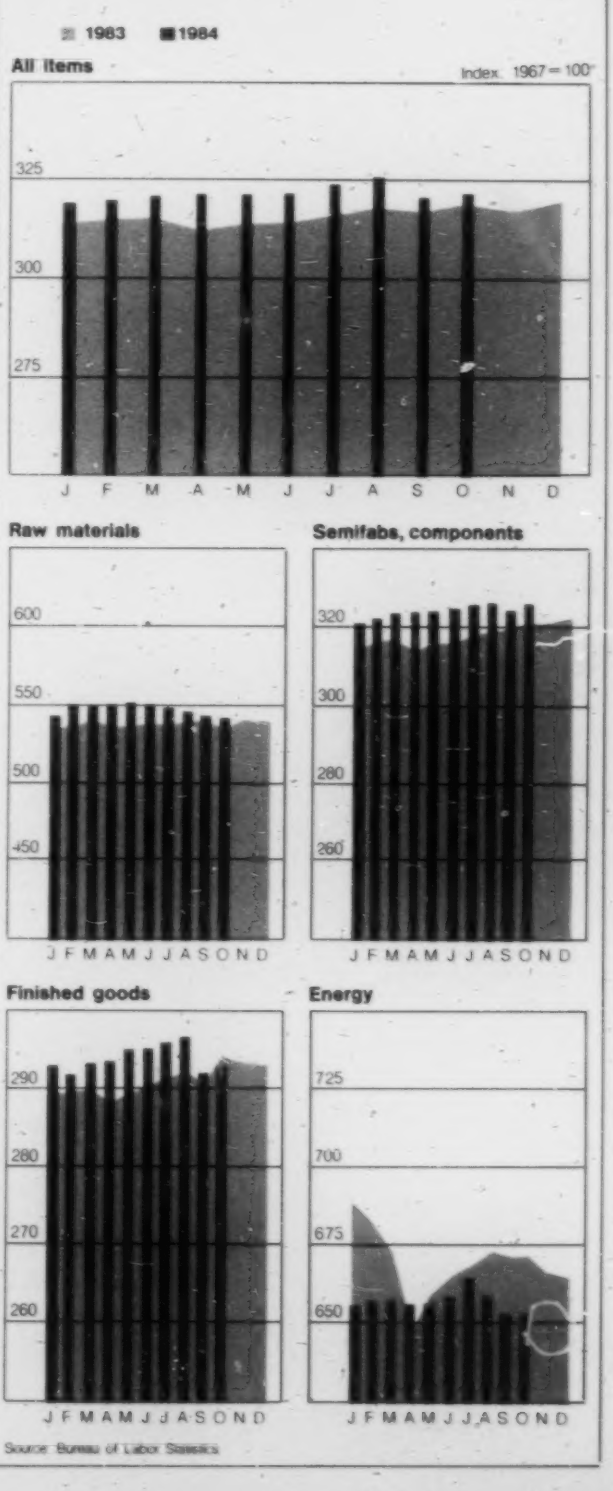
Softest areas this past month were in the fuel-derived product lines—especially chemicals and plastics where declines of about 1% were reported. Moreover, the actual slippage may be even greater when all the discounting noted in these sectors is taken into account.

Competitive pressure is also exerting a downward push on textiles. This is particularly evident in the

This month's breakdown

	Latest level (Nov.)	% change from: Month ago	Year ago
Bearings	345.1	0.3	4.0
Bolts, nuts, etc	277.4	0.2	2.6
Chemicals, inorganic	297.4	0.5	2.2
Chemicals, organic	353.8	−1.0	−4.6
Concrete products	311.5	0.0	2.7
Corrugated cartons	275.2	2.3	11.5
Cutting tools, small	282.8	0.6	1.8
Electric lamps (bulbs)	336.0	1.2	2.8
Electronic components	195.8	0.5	4.8
Fans and blowers	351.5	0.0	4.5
Foundry and forge products	363.3	0.2	3.2
Fuel oil (residual)	1113.2	−0.6	−0.6
Furniture, commercial	298.0	−0.2	3.7
Gasoline	560.6	1.9	−8.4
Glass, flat	218.0	2.0	−5.1
Glass containers	364.8	0.1	4.2
Gypsum products	339.4	−4.7	8.5
Hand tools	364.4	1.3	3.7
Hand tools, power driven	226.4	0.6	2.5
Industrial furnaces	376.5	0.3	2.4
Integrating and measuring instruments	230.2	0.0	3.9
Internal combustion engines	347.1	−0.3	3.6
Lubricating oil	794.5	0.0	2.4
Lumber millwork	306.6	−0.1	−0.3
Material handling equipment	290.6	0.1	1.9
Metal containers	358.0	1.5	5.8
Metal mill shapes (nonferrous)	315.5	−0.7	0.7
Metal tanks	305.7	0.0	0.6
Motors and generators	343.1	0.8	2.3
Motor trucks	289.6	8.1	3.5
Office and store equipment	154.0	−0.2	3.7
Paperboard	291.8	1.2	13.4
Paper boxes and shipping containers	269.8	1.5	7.9
Paper office supplies	243.5	−1.2	7.1
Paint	278.1	0.3	5.3
Plastic resins	308.9	−0.8	3.3
Precision measuring tools	254.8	0.6	4.3
Pumps and compressors	350.4	0.2	1.4
Refractories	362.7	0.0	5.2
Rubber belts and belting	349.3	0.6	6.0
Scales and balances	232.3	0.0	1.7
Steel products	366.0	0.3	3.0
Switchgear	274.5	0.3	0.3
Textiles, synthetic fibers	158.2	−0.6	−1.4
Textiles, gray fabrics	154.7	0.1	3.5
Tires and tubes	245.8	0.4	1.3
Transformers and power regulators	228.1	−0.2	2.5
Welding equipment	284.3	0.5	2.1
Wire and cable	200.9	0.0	−1.3

Industrial prices

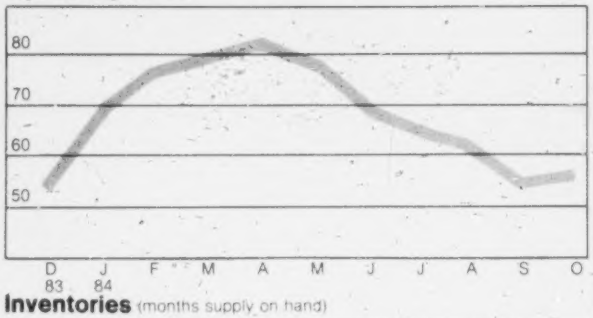


Source: Bureau of Labor Statistics

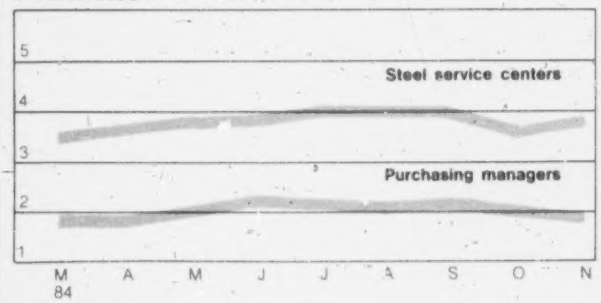
BUSINESS DATATRAK

Steel

Operating rates



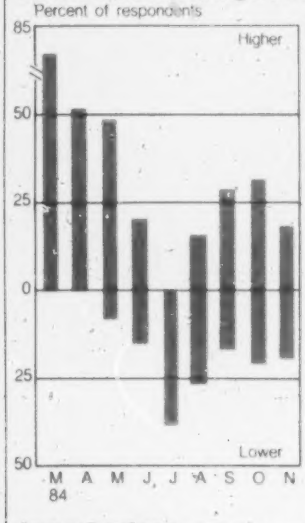
Inventories (months supply on hand)



Demand

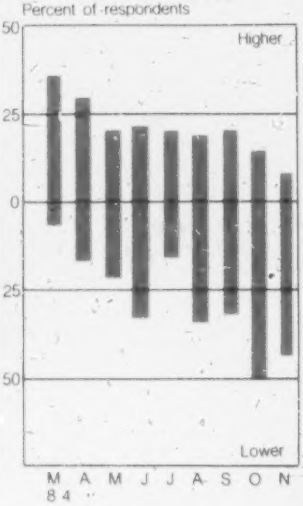
Service center incoming orders

Percent of respondents



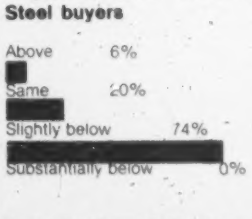
Steel buyer purchases

Percent of respondents

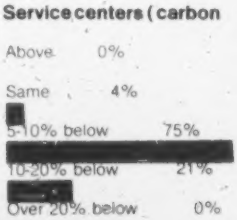


Import prices (compared to domestic)

Steel buyers



Service centers (carbon



Source: Steel Service Center Institute; NAPM Steel Buyers Committee

synthetic fiber area where prices now run 1.5% under comparable year-earlier readings.

Construction materials are relatively mixed. True, there were substantial increases last month in structural metal products, softwood lumber, and asphalt felts and coatings, but they were offset by declines in gypsum and plywood.

Energy is also mixed—resulting in an overall "no-change" month. But here, too, there were significant individual shifts—with diesel fuel and kerosene on the upside—balanced out by drops in electricity, coal, residential fuel and liquified petroleum gas.

Paper continues to drift upward—sparked by increases in paperboard and cartons. But here, too, there is some good news as paper office supplies dropped more than 1%.

Where do we go from here? Some Washington officials see a temporary upward blip in January since that is traditionally the time to test the water with new hikes. But these same analysts hasten to add that many of the boosts may not stick or may be watered down by competitive market pressure.

STEEL SCENE

Metal purchases to be reduced somewhat

Don't look for any late fall-early winter pickup in overall steel buying.

At least that's what PMs have been telling the NAPM Steel Committee Survey these days. Specifically, some 44% say they will reduce their metal purchases over the next three months—far outpacing the small 12% who see some increases ahead.

You have to go back to late 1982 to find a bigger percentage pondering a reduction. The fact that the 12% who expect gains is the smallest such number in two years isn't all that encouraging.

Distributors responding to the latest Steel Service Center Institute (SSCI) survey aren't too bullish either—though the gap between those expecting a drop in increasing orders (20%) and those anticipating increases (17%) is a lot narrower.

One reason for the less pessimistic view on the part of the service centers may lie in the fact that they have far outpaced the mills in shipment gains this year.

The 21 million tons of steel they expect to sell this year, for example, represents a healthy 19% increase over 1983 levels—far above the 10% increase projected on the mill level.

Not surprising then, service centers see the current slowdown as a temporary blip. As such, expect things to pick up as 1985 wears on. Thus Andrew Sharkey, SSCI president, sees 1985 member company sales up another 4-5%—or 800,000 to one million tons—bringing the total for the year to nearly 22 million tons.

...continued

Sharkey hastens to add, however, that his projections are also predicated on distributors continuing to capture an increasing share of the overall steel market.

Recent trends would certainly seem to support him on this point. Thus over the last five years, the amount of carbon industrial steel passing through distributors has risen from about 20% to an estimated 31%.

And, as the SSCI president says, the percentage should grow even larger over the next few years, as the just-in-time inventory concept (with its reliance on nearby distributors for quick, reliable deliveries) continues to attract more and more purchasing managers.

But despite this optimistic long-term appraisal, the majority of service centers will probably exercise extreme caution in monitoring their inventories over the next few months. One reason: aside from expectations of lower near-term user demand is that they can probably refill their shelves quickly if demand proves stronger than anticipated.

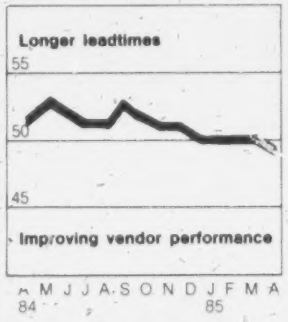
In any case, the fact that 66% of the queried service centers plan to reduce stocks over the next three months has to be regarded as significant.

Steel buyers, too, seem to be thinking in terms of inventory retrenchment—with 50% hoping to pare stocks over the next few months—in sharp contrast to the only 6% talking of a buildup.

Monthly procurement status report

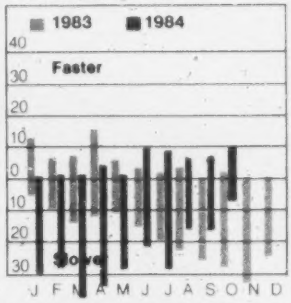
Leadtime index

A 'diffusion' index based on 158 key commodities. Above '50' indicates a tendency for leadtimes to stretch out. Below '50' suggests improving vendor performance

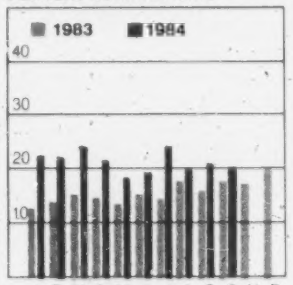


Delivery performance

Percent reporting deliveries

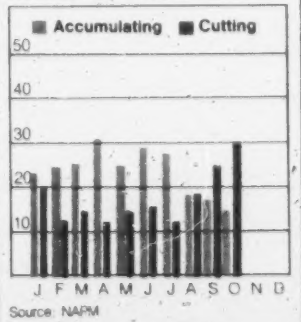


Forward commitments



Inventory strategy

Percent of respondents



Source: NAPM

PROCUREMENT STATUS

Overall climate looks good on PW's exclusive barometer

The overall procurement climate is beginning to look better and better.

True, a few items have continued to stretch out over the last month. But this has been more than offset by shrinking leads.

And it's beginning to show up in *PW*'s exclusive leadtime barometer. This key yardstick of availability has dropped under the neutral 50 level (albeit to only 49) for the first time since the 1982 recession.

Buyers responding to *PW*'s latest buyer survey attribute all this good news to several factors—including (1) some slowdown in the overall rate of ordering, (2) modest capacity increases in some procurement areas, and (3) improved scheduling due to increased emphasis on just-in-time deliveries.

And the near-term outlook is for more of the same. As one purchasing manager puts it, "If leads didn't stretch out during the busy fall period, they're certainly not going to do so during the next few months."

There's plenty of other evidence to back up this appraisal, too. Thus more buyers responding to the latest NAPM Business Survey Committee noted faster than slower deliveries.

About the only items that buyers report in short supply these days are integrated circuits and the chips used to make them.

Given all the above, it's also clear why buying executives are keeping a closer rein on inventories. During the latest available month, for example, PMs reporting lower stocks outnumbered accumulators by a 2:1 margin (30% lower, 15% higher, with the remaining 55% holding stocks steady).

Forward commitments have also been holding at extremely low levels. Thus only 20% of queried PMs say they are now buying 90 days or more in advance—far fewer than the 51% who are currently committing on a 30-day-or-less cycle.

Leadtimes

Chicago: A mixed picture here. Waits (in weeks) are out for PVC resins (1-9), valves and fittings (2-3), and coated paper (2-4). But these are offset by drops in resistors (8-16), MOSS semiconductors (26-39), integrated circuits (20-52), film laminate (12), galvanized sheet (10-14), and special brass sheet (6-8).

Cleveland: A few scattered changes here. Coming in a bit are maintenance paint (3-4), and cold finish aluminum (12-14). But edging out are corrugated boxes (to 3). Other unchanged leads include alloying materials (on demand), glassine and grease-proof paper (4-5), lumber and plywood (3), plastic shrink film (3), and multiwall paper (8-10).

Los Angeles: Grey iron casting delays have jumped out to 7-8 weeks. Ditto, brass castings (8-10). Little change elsewhere with these typical leads: galvanized steel (8-16), copper fittings (3-5), insulation material (6-8), specialty wire (4-6), pumps (8-10), fasteners (6-8), paint (3-5), custom seals and gaskets (4-6), and semiconductors (12).

BUSINESS DATATRAK

Houston: Electronic components are generally a lot easier—available in only 6-8 weeks now. On the other hand, domestic drilling pipe is substantially tighter (12). Other reported leads (in weeks): MRO items (2-3), forgings (5-7), control valves (9-26), and valves and fittings (0-1).

Philadelphia: Coming into these lower weekly leads are printed circuit boards (12), 6500 series transistors (12-14), large scale ICs (16-18), LTL ICs (16-18), CMOS ICs (22-24), and 8031 microprocessors (in stock). But out are power supplies (16) and hex shape stainless bar (16).

Pittsburgh: Pretty much the status quo here—with these typical weekly leads: paints (4-5), polyethylene (5), PVC (6), lead (2), magnesium (4), manganese (3), nickel (3), hardeners (2), multiwall bags (6), plastic bags (3-4), corrugated and folding boxes (3-4), fiber and steel drums (1), lumber (3-4), and waterproof paper (8).

Leadtimes (in weeks)

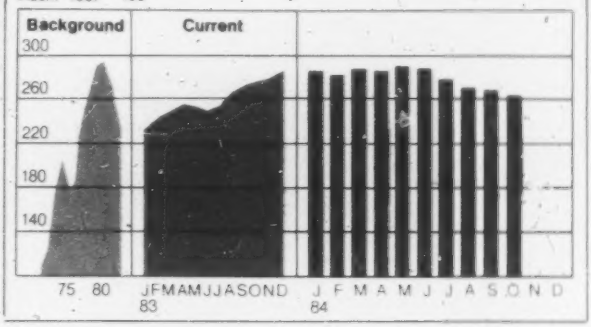
	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	9	9	9
C-R Sheet (Chgo)	5	5	8
Plate (Phil)	10	10	10
Plate (Chgo)	2½	2½	3½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	7	7	7
H-R Bars (Chgo)	3	3	3
Cold-Drawn Bars (Phil)	7	7	7
Galvanized (LA)	14	14	16
Galvanized (Chgo)	10	11	8
Structurals (Chgo)	4½	4½	3½
Structurals (Hous)	17	17	17
Tubing (Phil)	7	7	7
Grey Iron Castings (LA)	7½	5	9
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	13	13	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	17	17	17
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	13
ICs (Linear) (Phil)	17	20	20
Motors (Phil)	15	15	15
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	10	20	17
Relays (Chgo)	15	15	15
Resistors (Chgo)	12	14	14
Resistors, Wirebound (Phil)	10	10	10
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	3½	3½	3½
Plywood (Chgo)	2	2	1½
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	3	3	3
Softwood (Phil)	½	½	½
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Napthalene (Chgo)	2	2	2
Paint (LA)	5	5	5
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	3½	4	3
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	3	3	3
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2½	1	3
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	3	2½	3
Cartons, Corrugated (Hous)	3	3	3
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	4	4	4
Shrink Film (Clev)	3	3	3
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	2½	2½	2½
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	11	11	15
Aluminum Plate (Chgo)	14	14	14
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	11	11	15
Brass Castings (LA)	9	7	7
Brass Rods (Chgo)	6	6	5½
Brass Sheet (Chgo)	7	9	17
Brass Tube (Chgo)	5	5	9
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	5½	5½	5½
Copper Tube (Phil)	6	6	6
Lead (Pgh)	2	2	2
Magnesium (Pgh)	4	4	4
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	3	3	3
Wire, Specialty (LA)	5	5	8
Zinc (Pgh)	2	2	6
MISCELLANEOUS			
Bearings, Domestic (Phil)	22	22	22
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	48
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	7	7	7
Fasteners, Std. (Phil)	4	4	2½
Heat Exchangers, Carbon-alloy Steel (Hous)	20	20	20
Heat Exchangers, Hi-pressure (Hous)	35	35	43
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	2½	2½	2
Pumps (Hous)	35	35	35
Pumps (LA)	9	9	9
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

Latest month	266.4
Month before	274.0
Year ago	273.4

Index: 1967 = 100



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	347.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	25.10	24.40	24.40
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	17.50
Steel, bars, Pitts., cwt.	23.95	23.95	17.50
Steel, bars, C.R., Pitts., cwt.	29.25	29.25	26.00
Steel, plates, Pitts., cwt.	23.25	23.25	25.75
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	25.75
Steel, sheets, C.R., Detroit, cwt.	27.10	27.10	26.15
Steel, strip, C.R., Chi., cwt.	35.30	35.30	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	0.555	0.485	0.740
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cost ingot, lb.	5.20	5.20	4.95
Brass, red, 85%, [sheet], lb.	1.28	1.24	1.19
Brass, yellow, [sheet], lb.	1.23	1.19	1.14
Cadmium, ton lots, lb.	1.55	1.55	1.25
Copper, electrolytic, wire bars, refd., lb.	0.66	0.62	0.68
Copper sheet, over 24 in., lb.	1.37	1.33	1.28
Lead, common, N.Y., lb.	0.25	0.22	0.25
Magnesium, pig ingot, [99.8%], lb.	1.48	1.48	1.38
Mercury, 20 fl. lots, N.Y., fl.	328.00	322.00	345.00
Molybdenum Climax Oxide/bags, lb.	4.65	4.65	4.65
Nickel, electrolytic, producer, lb.	3.20	3.20	3.20
Platinum, producer, oz.	475.00	475.00	475.00
Silver, N.Y., oz.	7.80	7.14	8.92
Tin, Straights, N.Y., lb.	6.14	6.05	6.52
Zinc, Prime West, East St. Louis, lb.	0.45	0.45	0.49
Zinc, die casting alloy, No. 3, lb.	0.515	0.515	0.555
PAPER			
Uncoated book #3 offset, ton	850.00	850.00	760.00
Watermarked bond, ton	985.00	985.00	915.00
Gummed sealing tape, carton	16.25	16.10	15.45
Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton	495.00	495.00	475.00
Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	350.00	350.00	290.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	0.399	0.380	0.289
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.04	1.04	1.02
Cotton middling, 1", N.Y., lb.	0.588	0.595	0.731
Printcloth, 48", 80x80, N.Y., spot, yd.	0.800	0.790	0.855
Army duck, 37", 13 oz., yd.	1.78	1.78	1.69
Blended printcloth, 64", 78x54, yd.	0.77	0.77	0.74
20s combed yarns	2.12	2.10	2.10
Wool tops, N.Y., lb.	3.60	3.60	3.60
CHEMICALS			
Acrylonitrile, tanks, lb.	0.455	0.455	0.430
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	150.00
Benzene, petroleum, tanks, Houston, gal.	1.16	1.18	1.47
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.58
Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb.	0.106	0.106	0.106
Glycerine, synthetic, tanks, lb.	0.81	0.81	0.73
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.54	0.54	0.45
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.305	0.305	0.305
Polyethylene resin, low density liner film grade (market price), lb.	0.29	0.35	0.38
Polypropylene, homopolymer grade (market price), lb.	0.38	0.39	0.38
Polystyrene, general purpose grade (market price) lb.	0.37	0.39	0.37
Shellac, bone dry, N.Y., lb.	1.65	1.65	1.65
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.35	0.35	0.35
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	147.50	147.50	132.50
Sulphuric acid, 66%, commercial tanks, ton	56.85	56.85	56.35
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.25	1.25	1.33
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl.	306.85	311.95	327.35
Lumber, 2x2, pine, mbf, cl.	292.50	293.25	324.70
Plywood, plyform, ¾", msf, cl.	575.00	576.75	551.35
Plywood, ½", msf, cl.	381.35	384.45	366.45
Cement, bulk, ton, tl.	63.74	63.75	61.88
Sand, ton, cl.	6.22	6.20	5.99
Ready-mix concrete, 3,000 psi/cu yd., 15 cu. yd.	47.62	46.84	45.64
Crushed stone, 1½", ton, cl.	7.44	7.43	8.01
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl.	0.78	0.78	0.76
Gypsum sheathing, ½"x1'x8", msf, tl.	208.77	207.22	172.93
Brick, common, per thousand, tl.	175.63	174.38	174.35
Asphalt paving, AC-20	171.03	169.92	158.71
Concrete sewer pipe, 12", prem. joint, per foot, cl.	7.11	7.08	6.80
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf, bbl.	26.25	26.50	25.25
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	30.50	31.00	30.50
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.805	0.810	0.780
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.770	0.803	0.833
Heating oil, No. 2, Chi., bulk, gal.	0.800	0.820	0.828
Heating oil, No. 2, N.Y., bulk, gal.	0.808	0.808	0.848
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.25
Jet kerosene, gal.	0.760	0.785	0.815
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.42	0.42	0.49
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	81.00	89.00	85.00
Steel, No. 1, hvy., dlvd., Chi., ton	82.00	80.00	77.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	0.560	0.515	0.575
Copper, No. 2, East, wholesale buy,	0.465	0.425	0.475
Brass, red, East, wholesale buy, dlvd., lb.	0.520	0.475	0.535
Brass, yellow, East, wholesale buy, dlvd., lb.	0.335	0.350	0.330
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	0.325	0.305	0.450
Alum., mixed clip, E., wholesale buy, dlvd., lb.	0.345	0.325	0.475
Zinc, old, East, wholesale buy, dlvd., lb.	0.20	0.20	0.19
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.13	0.11	0.14
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	24.00	28.00	25.00
Paper, old corrug. box, dlr., N.Y., ton	15.00	23.00	20.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	0.12	0.12	0.10
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	0.37	0.37	0.33

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Survey of the month

No sweat on the industrial price front

It is looking like a stable year ahead for industrial prices, say the hundreds of buying executives responding to *PurchasingWorld's* just-completed nationwide price outlook survey.

Despite the likelihood of a third year of general economic gains, the nation's top PMs are predicting only about 4% average inflation rate on the products and services they buy—only one point above this year's estimated advance.

The reasons given for this optimism are the same as those noted in other recent *PW* surveys: (1) still-ample capacity, (2) intensifying foreign competition aided by the strong U.S. dollar, (3) relatively restrained labor, energy, and other cost pressures, and (4) determination on the part of these buyers to hold the line wherever possible.

As one Midwestern purchasing vice president puts it: "We've got the bargaining leverage. With most vendors solidly in the black, there is little reason why we should not hang tough when confronted with any new price increase."

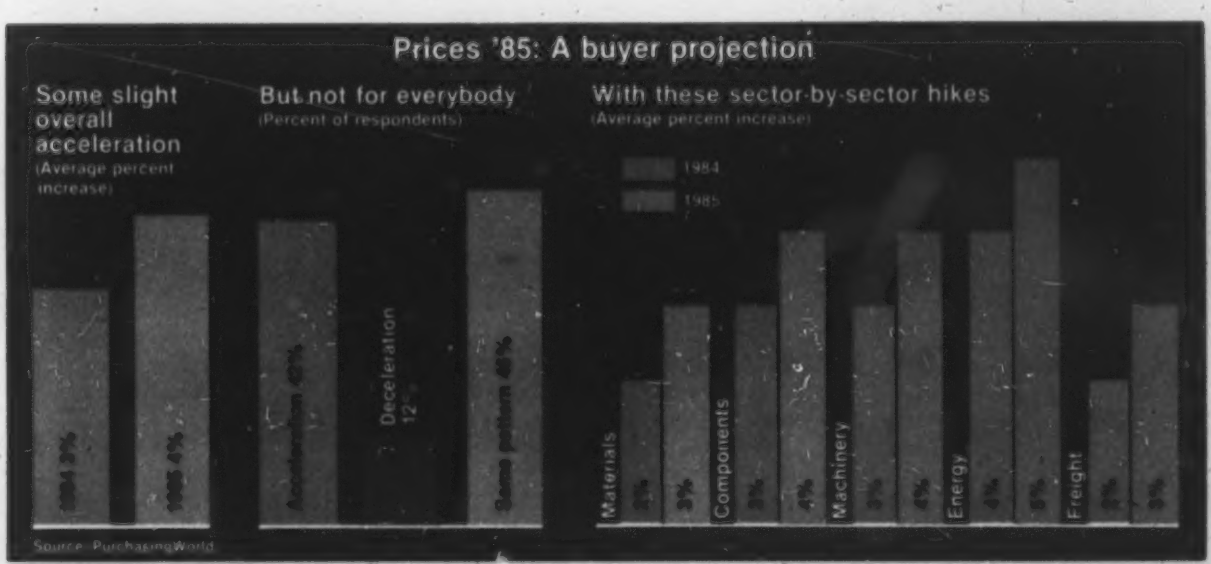
Some of the more specific findings of this latest *PW* survey:

- ***Recent performance:*** Over the past year, raw material and freight costs have gone up the least on average (about 2%), followed in ascending order by component parts (3%), machinery (3%), and energy (4%). As to freight, a surprising 29% of those surveyed said they were able to reduce overall costs during the past year.
- ***Next year's outlook:*** On average, each of the sector increases noted above will accelerate by about one percent, bringing projected increases over the next 12 months to the following levels: raw materials (3%), freight (3%), component parts (4%), machinery (4%), and energy (5%).
- ***Price spreads:*** There's much agreement here—with no one seeing any return to double-digit rates in any area. Indeed, the preponderance of anticipated price increases in all five product and service categories are centered in the relatively narrow 2-5% range.
- ***Currently soft areas:*** The list is still impressive and includes steel, aluminum, fasteners, zinc, copper, textiles, plastic resins, petrochemicals, machine tools, electrical supplies, petroleum products, and natural gas.
- ***Best candidates for holding the price line:*** Among products noted are steel, aluminum, copper-base alloys, electric motors and components, fasteners, stampings, machined parts, coal, electronic components, tires, diesel engines, and office supplies.
- ***Candidates for bigger-than-average price boosts:*** The list here covers fabricated metal parts, chemicals, plastic resins, corrugated boxes, other paper packaging, energy, steel (if quotas work), office furniture, capital goods, electric components, and military electronics.

Whatever the specific products or services involved, PMs say they will do their best to keep price increases within bounds. To achieve this, they will be (1) stressing new sources including imports, (2) questioning all major increases, (3) working with vendors to keep costs down, and (4) placing more long-term contracts and multi-plant supply agreements.

A few also expect some aid from a slower rate of general business growth. With real GNP slated to advance only 3% in 1985 (vs some 7% this year), many PMs feel their bargaining positions won't deteriorate—and may even improve a bit.

As one New England PM sums it up: "Our master plan calls for about the same rate of increase as during the current year. True, we may have to move this up a percentage point or so, but we could also end up even better than last year if the current boom runs out of steam. More succinctly, our inflation range is 3-5%—and there had better be a darn good reason for us to top this in any major procurement area." ***PW***



Quarterly freight report

Rate hike projections toned down

Some good news on the freight front: Rate hikes may be slightly under levels projected just three months ago.

At least that's how transportation analysts at Wharton Econometric Associates see it. The average overall increase for 1985 is now being projected at only 6.0%—down a full percentage point from projections made at summer's end. And the figure is off even more from this past spring when Wharton was talking about a big 8% advance.

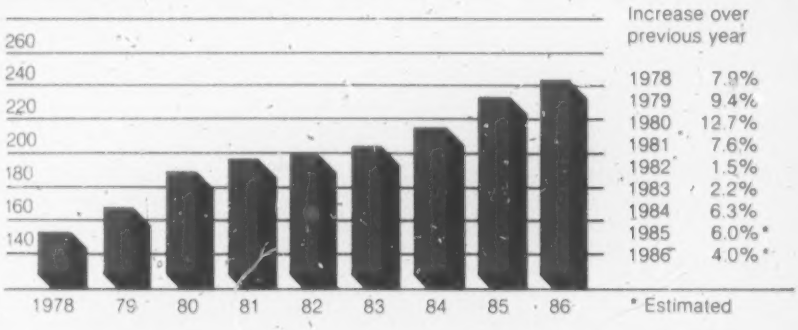
1986 projections have also been toned down from 4.9% predicted three months ago to only 4.0% at latest report.

Why the more optimistic rate outlook? Much of it, say Wharton analysts who track the industry closely, can be traced to reduced energy cost pressures—with an added assist coming from lower-than-anticipated labor and other cost increases.

And what is true for overall freight rates also seems to be holding for each of the key transportation modes. Thus current projections for rail, truck, barge, and air are all under previously anticipated levels—despite continuing demand gains. Here's a more detailed look at each of these modes:

Rail: Carriers have benefitted from increasing economic activity this year as well as from the still-growing popularity of piggy-back traffic which is up a hefty 18% so far this year. This is well above the overall rail advance which is put near 13%.

***PurchasingWorld* freight rate index**



The industry did show hefty increases of 16.1% and 8.7% (seasonally adjusted annual rates) in the first two quarters of 1984, but advances should cool down considerably (to 3-4%) during the last half of this year. Increases for the year as a whole should average about 6.8%.

Next year, quarterly rate increases should build up to 6.5% by the third quarter. The average boost should be about 5.4% in 1985 and an even smaller 4.0% gain for 1986.

Trucking: Class I carrier tonnage continues to run well ahead of last year—with as much as an 8% gain seen for the current year. Also, LTL shipments are growing faster than TL shipments, reflecting the growing popularity of just-in-time inventory management systems.

Rates have risen consistently with economic activity—showing an 8.3% increase over the first half of this year. But hikes should cool off somewhat at the end of the current year—and the rise for all of 1984 should average around 6.6%. In 1985 rates should advance to about 6.4%, and by 1986 the increase will only be in the 4% range.

A new Booz, Allen & Hamilton study suggests structural changes within the industry over the next five years. Specifically, traffic hauled by contract carriers will increase sharply (about 18% per year) between now and 1988—with much of this increase coming from shippers presently operating their own private fleets.

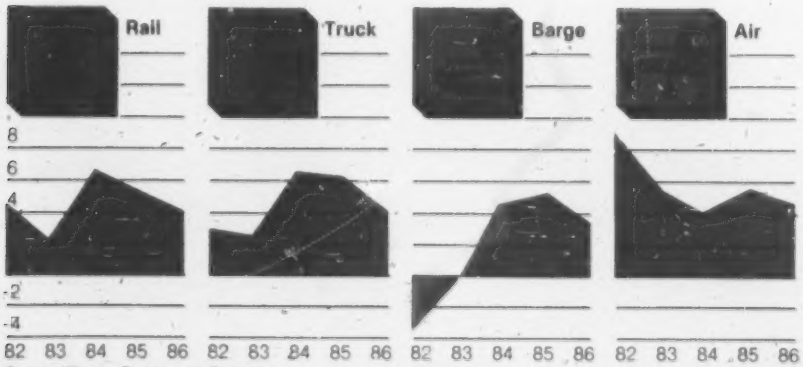
Air: As freight traffic rises (this year it has been running some 16% ahead of 1983 levels), upward pressure on prices builds. Upshot: Rate hikes should grow from 4.2% this year to 5.5% in 1985. But the upward thrust should begin to abate a bit in 1986 as economic activity slows down—the overall rate hike for 1986 is put at only 4.4%.

Barge: This sector will continue to show the smallest rate increases—only 5.2% next year and 3.5% in 1986. The reason: Continuing overcapacity and cut-throat intra-industry competition despite the fact that tonnage will be up as much as 10% this year.

Other developments worth noting: 1) CSX Corporation's acquisition of American Commercial Barge Lines—signaling rail's entry into barging, 2) a scheduled 2¢/gallon increase in the fuel surcharge assessed against barge operators, and 3) a proposed user fee to pay for inland waterway projects. ***PW***

Freight cost outlook by mode

Percent increase over previous year



Source: Wharton Econometric Forecasts

Buyers still calling shots in plastics industry

Thermoplastic resin buyers are still calling most of the shots. Despite continuing good demand—up an estimated 5-6% this year on top of last year's big 12.5% increase—availability is not a problem and tags have been edging lower recently.

Today's huge discounts tell the price story. Price shading has always been endemic in this hotly competitive sector; but some of the big price breaks currently available are really eye-openers. A spot check of volume purchases today reveals these whopping discounts: liner grade low density polyethylene (35%), injection molding high-density polyethylene (40%), homopolymer polypropylene (16%), general crystal polystyrene (21%), general purpose polyvinyl chloride (45%), and pipe grade ABS (17%).

Where do we go from here? While some modest price increases may be in order for 1985 as producers trim inventories, they probably won't exceed 4% or so on average. Reasons: 1) the cost of the petrochemical raw materials remains at or near current bargain-basement levels, and 2) excess capacity continues to plague producers.

This year the industry will reach only 78% of its potential. And most of the projected demand gain is being offset by new potential coming on stream (about 4.5% on average).

No big changes are seen for 1985. Capacity increases will dwindle to around 2% and demand advances will also be harder to come by—about 3-4%. Conclusion: The overall plastic resin operating rate probably won't top the 80% mark anytime soon.

Import competition has become a problem for the entire plastics industry. The strong dollar and increased foreign capacity have slowed exports and increased the flow of foreign goods to the U.S. Incoming PVC shipments, for example, may exceed 400 million lb this year—double the 1983 volume.

Foreign trade could become an even bigger headache in the years ahead as more and more foreign plants (often offering state-subsidized, lower priced goods) begin to appear.

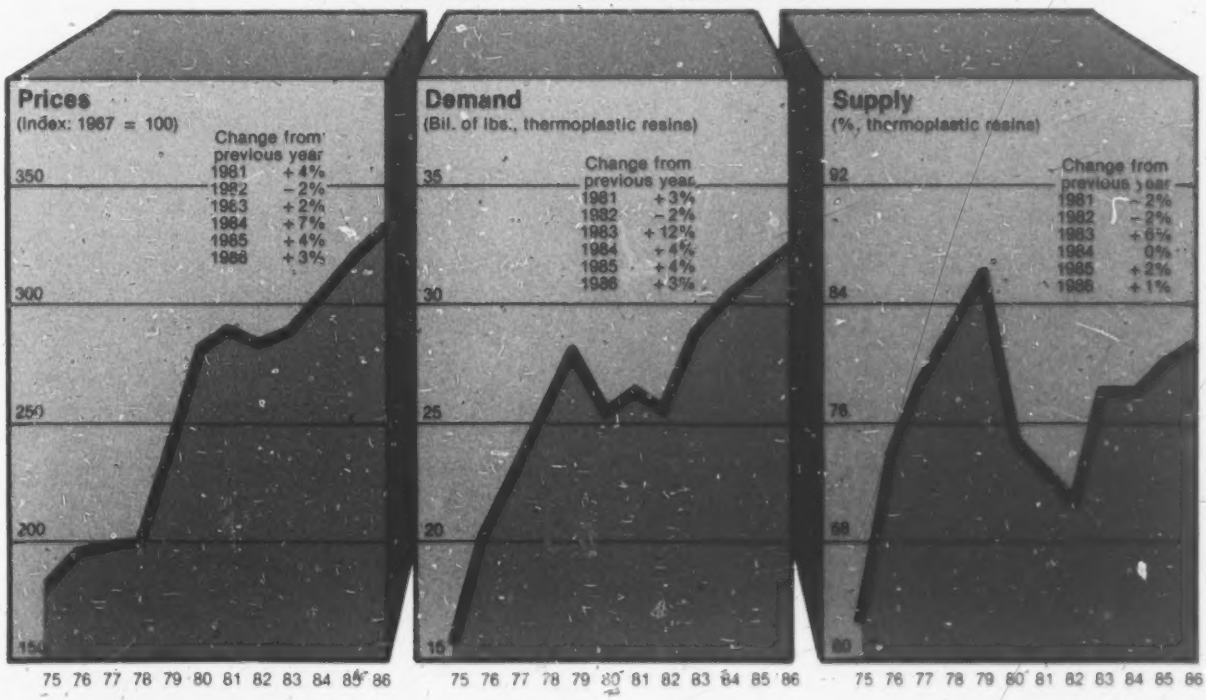
But the plastics industry as a whole will also have to wrestle with the fact that the big growth rates of the past few decades are over. Most industry analysts are only projecting 4-6% annual increases through 1990.

There are exceptions—The so-called engineering resins which can be substituted for metal and other materials can probably expect faster growth. (For more on the potential of engineering plastic, see the following pages.)

On the automotive front the potential is even greater—today's car includes about 161 lb of plastics but this figure could rise to over 180 lb within a decade.

In short, the plastics demand picture is still a rosy one. From a buyer's viewpoint there's an added plus—economy—as new formulations, improved production techniques, the outlook for continued low feedstock costs, and competition all help to keep prices at very attractive levels. ***PW***

Plastic resin trends into 1986



Source: Bureau of Labor Statistics, Society for the Plastics Industries, PW Estimates